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October 26, 2018

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Approval of CRPE Queue Number Proposal, Limited Waiver of Generator Interconnection Procedures, and Request for Expedited Review
Docket Number 2018-202-E

Dear Ms. Boyd:

Enclosed for filing in the above-referenced docket please find the Additional Reply Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC to Comments of the Interstate Renewable Energy Council, Inc.

Should you have any questions regarding this matter, please do not hesitate to contact me at 803.988.7130.

Sincerely,

Rebecca J. Dulin

Enclosures

cc: Parties of Record

STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION
DOCKET NO. 2018-202-E

IN THE MATTER OF:

Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Approval of CPRE Queue Number Proposal, Limited Waiver of Generator Interconnection Procedures, and Request for Expedited Review	)	ADDITIONAL REPLY COMMENTS OF DUKE ENERGY CAROLINAS, LLC AND DUKE ENERGY PROGRESS, LLC TO COMMENTS OF THE INTERSTATE RENEWABLE ENERGY COUNCIL

Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP" and together with DEC, the "Companies") respectfully file these additional reply comments with the Public Service Commission of South Carolina (the "Commission") in response to the comments recently filed by the Interstate Renewable Energy Council, Inc. ("IREC"). The Companies previously filed reply comments in this docket on October 12, 2018 (the "Initial Reply Comments"), in response to the position statement filed by the South Carolina Office of Regulatory Staff ("ORS") ("ORS Position Statement"), as well as the joint comments filed by the South Carolina Solar Business Alliance and Ecoplexus, Inc. (jointly, "SCSBA/Ecoplexus"), and the comments filed by First Solar, Inc ("First Solar"). The Commission recently granted IREC intervention in this proceeding on October 3, 2018, and IREC subsequently filed comments on October 19, 2018, addressing the Companies' Petition as well as responding to certain issues raised in the Companies' initial Reply Comments ("IREC Comments"). Accordingly, the Companies are now filing these additional reply comments in response to the IREC Comments to assist the Commission in its deliberations on the Companies' Petition.

The Companies also respectfully renew the request presented in the initial Reply Comments for the Commission to rule on the Companies' Petition as expeditiously as possible in

order to provide the Companies and the Competitive Procurement of Renewable Energy ("CPRE") Program Independent Administrator, Accion, Inc., ("IA") certainty regarding whether South Carolina solar generating facility Interconnection Customers ("SC Solar Generators") should be evaluated for grid upgrades in the same manner as North Carolina-sited solar generators that have bid into Tranche 1 of the CPRE Program.

COMPANIES' REPLY COMMENTS TO IREC

I. IREC mischaracterizes the Companies' request for Commission guidance relating to future recovery of CPRE-related Upgrade costs in a future general rate case and its opposition to the Companies' request should be disregarded.

IREC dedicates a considerable portion of its reply comments to opining not on interconnection-related issues but on the appropriateness of the Companies' planned recovery of CPRE Program-related costs. In short, IREC argues that the Companies have greatly expanded the scope of the Petition to now address recoverability of CPRE-related Upgrade costs, and are seeking Commission authorization to "bill South Carolina ratepayers for investments required by North Carolina law, and for the Commission to find that an undefined cost allocation approach is in the public interest."[1] IREC further opines that, in its view, it is ". . . even more inappropriate for South Carolina ratepayers to pay for the cost of energy supplied through the CPRE program . . ."[2] IREC's Comments mischaracterize the Companies' recent request for guidance from the Commission, and IREC's broad statements opposing cost recovery for energy generated by Qualifying Facilities ("QFs") participating in the CPRE Program evidence a lack of understanding of how the Companies recover their costs to serve customers' energy needs in

[1] IREC Comments at 4.
[2] *Id*. at 5.

South Carolina. Accordingly, the Commission should disregard IREC's comments on this South Carolina cost recovery issue.

As an initial matter, IREC's criticism that the Companies have waited until late in this proceeding to seek guidance from the Commission on recovering CPRE-related Upgrade costs ignore that the need for this prospective Commission determination arose only after ORS's Position Statement was filed recommending that South Carolina not be allocated any potential Upgrade costs incurred through the CPRE Program.[3] This preemptive statement by ORS raised for the first time the potential for prospective "stranded costs"[4] associated with the CPRE Program implementation, seemingly based upon a misunderstanding of the CPRE Program design. In response, the Companies sought to better inform the Commission and ORS about the CPRE Program design and to further explain the rationale supporting the Companies' plan to segregate, fund, and request recovery for potential CPRE-related Upgrade costs.[5] The Companies also identified for the Commission and ORS that the North Carolina Utilities Commission ("NCUC") had recently authorized a limited and unique cost recovery approach for CPRE-related Upgrades in North Carolina, finding that the cost of Upgrades necessary to interconnect the most cost-effective portfolio of CPRE projects are "exemplary of the type of

[3] ORS Position Statement at 3 (challenging what ORS perceived to be the allocation of "additional costs to administer the CPRE Program including network upgrade costs . . ." to South Carolina customers).

[4] The IA will soon be making determinations in Tranche 1 about the least cost new renewable energy resources sited in either South or North Carolina to be procured through the CPRE Program. As the CPRE proposal prices do not include any Upgrade costs, there is the near-term potential for DEC or DEP to be confronted with "stranded costs" if projects requiring some level of Upgrades are determined to be most cost effective for customers and the Companies do not have clear guidance from the Commission confirming that the Companies will have the opportunity to seek recovery of these costs in a future general rate case.

[5] Part IV of the Companies' initial Reply Comments extensively address the CPRE Program design and the reasoning underlying the Companies' planned approach for funding and then prospectively seeking recovery of any CPRE-related Upgrades in both North Carolina and South Carolina through a future general rate case. *See* Initial Reply Comments at 11-17.

costs that may be recovered through base rates in a future rate case proceeding."[6] After explaining the Companies' cost-recovery proposal, the initial Reply Comments requested the Commission make clear that such Upgrade costs—like most other costs today—are properly allocated and recoverable between North Carolina and South Carolina if found by the Commission to be reasonable and prudently incurred in a future general rate case.[7]

The Companies appreciate that this request for guidance has been made late in the proceeding, but believe it is both necessary and appropriate at this time for the Commission to provide the requested guidance in order to ensure consistent opportunities for future recovery of CPRE-related Upgrade costs in both South Carolina and North Carolina and to avoid the risk of stranded cost. Accordingly, the Companies requested the Commission expressly find—similar to the NCUC in North Carolina—that such an approach would be reasonable and in the public interest based upon the unique and limited circumstances of the CPRE Program.

Specific to the potential CPRE-related Upgrade costs associated with projects selected through the CPRE RFP, IREC seems to misunderstand the import of the Companies' request for guidance as the Companies are not seeking a pre-determination that these costs are *per se* reasonable and prudent and *shall* be recovered from South Carolina customers. To the contrary, the Companies agree that recoverability of such costs is not yet before the Commission. Instead, the Companies are seeking clear guidance on the appropriateness of the planned recovery mechanism and recovery of such costs *in the future*, provided they are found to be prudently incurred. Providing this certainty now furthers the public interest, as it will eliminate ambiguity regarding the potential for stranded Upgrade costs and allow DEC and DEP to more efficiently

[6] *Order Modifying and Approving Joint CPRE Program*, at 26, NCUC Docket Nos. E-2, Sub 1159 and E-7, Sub1156 (Feb. 21, 2018) **(**stating that "the network upgrade costs, as defined by Duke in its CPRE filings, are exemplary of the types of costs that might be appropriately recovered through an adjustment in base rates").
[7] Initial Reply Comments at 14-17.

implement the CPRE Program and to procure the most cost effective new renewable energy resources to serve customers' energy needs. The Companies also recognize and support ORS reserving its right to review any CPRE-related costs in the Companies' next general rate case(s) to determine, at that time, whether those costs were prudently incurred, and as such, are appropriate to be recovered from South Carolina customers.[8]

In addition to challenging the Companies' approach to cost recovery for Upgrades associated with projects selected through the CPRE Program (the issue raised by ORS), IREC also more broadly challenges the appropriateness of allocating and recovering the "cost of energy supplied through the CPRE Program" on grounds that South Carolina customers should not be required to pay for energy procured pursuant to a North Carolina program.[9] While it is true that the CPRE Program was enacted in North Carolina and is administered by the NCUC, this is not necessarily new or different from the way that the costs of renewable energy procurement from QFs (along with all other fuel costs) are allocated between North Carolina and South Carolina today. As the Commission knows, the Companies plan and operate their generation fleets and transmission networks on a system-wide basis to cost-effectively serve all customers' energy needs in both South Carolina and North Carolina. The costs of building, operating, and maintaining system generation and transmission assets are routinely allocated on a jurisdictional basis in annual fuel proceedings and general rate cases alike. For example, the Companies' fuel costs, including the cost of fuel, cost of fuel transportation, and fuel costs related to purchased power, are properly recoverable pursuant to S.C. Code Ann. § 58-27-865.[10] Renewable energy purchases associated with the Act 236 Distributed Energy Resource Program

[8] ORS Position Statement at 3.
[9] IREC Comments at 5.
[10] Additionally, S.C. Code Ann. § 58-27-865(A)(2)(c) specifically provides for utility recovery of renewable energy and capacity costs from QFs up to the utility's avoided cost.

are similarly allocated between both South Carolina and North Carolina up to DEC's and DEP's avoided costs.[11] The cost of renewable energy purchases from QFs under North Carolina's Renewable Energy Portfolio Standard ("NC REPS")[12] framework are also allocated between both jurisdictions up to the utility's avoided costs.[13] Thus, while IREC recommends that the Commission should not "rush to judgment" on these issues and that the Companies have not sufficiently "defined" the cost allocation methodology, recovery of energy costs in this manner is clearly supported by the fuel statute, which the Commission has consistently implemented each year, and is consistent with current practice for other South Carolina- and North Carolina-enacted renewable energy procurement programs today.

In sum, the Companies' recovery of the costs associated with QF purchases up to the utility's avoided cost is clearly provided for under the fuel statute. Moreover, specific to the issue of CPRE-related Upgrade costs raised by ORS, it would be manifestly unjust and unreasonable for the Commission to preemptively penalize the Companies for attempting to reduce customers' costs by competitively procuring new renewable energy resources at total costs below the utility's avoided costs. The Companies are not seeking guaranteed recovery of specific CPRE-related Upgrade costs at this time and fully recognize that DEC and DEP will each have the burden of proof to justify any Upgrade costs required to deliver new CPRE solar QF resources to cost-effectively meet customers' energy needs. The Companies are confident that this showing can be met, as the CPRE Program is purposefully designed to promote the smarter and more sustainable development of renewable energy in both South Carolina and North Carolina and to benefit all of the Companies' customers by procuring the most cost-

[11] S.C. Code Ann. § 58-27-865(A)(1).
[12] *See generally*, N.C. Session Law 2007-397 (Senate Bill 3) (Aug. 3, 2007); N.C. Gen. Stat. § 62-133.8.
[13] Any "incremental costs" above the utility's avoided cost are assigned to the jurisdiction that established the procurement mandate. *See e.g.*, N.C. Gen. Stat. § 62-133.8(h)(1).

effective new renewable energy resources—including any CPRE-related Upgrade costs—at a cost below the Companies' avoided costs under PURPA. Accordingly, the Companies renew their request presented in the initial Reply Comments for the Commission to provide clear guidance that the Companies planned system-wide approach for future recovery of CPRE-related grid Upgrades through a future general rate case is reasonable and in the public interest.[14]

II. Despite concerns, IREC notably asks the Commission to grant the requested waiver and allow the CPRE Grouping Study for Tranche 1.

IREC's Comments describe several concerns with the Companies' Petition and requested waiver, but IREC—similar to every other party to file comments in this docket—does not expressly oppose approval of the CPRE grouping study authorizations and requested waivers set forth in the Companies' Petition for Tranche 1. While IREC specifically alleges that the CPRE Queue Number and waivers requested to implement the CPRE grouping study raises the potential for "preferential treatment"[15] of CPRE projects and "discriminatory treatment"[16] of non-CPRE participating projects, IREC ultimately requests that the Commission approve the limited waiver of the SCGIP requested by the Companies.[17] The Companies appreciate IREC's stated desire for the CPRE Program to be successful and for South Carolina projects to have the opportunity to participate in the CPRE Program.[18]

For background, the Companies note that IREC's generalized criticisms of the CPRE Program grouping study are very consistent with the recent comments IREC filed in North Carolina, which the Companies addressed by explaining in detail how the CPRE grouping study

[14] Initial Reply Comments at 16-18.
[15] IREC Comments at 8.
[16] *Id.* at 7, 9-10.
[17] IREC Comments at 19 (requesting the Commission take the following action in this matter: "[a]llow only limited waiver of the interconnection procedures for CPRE group study projects, and retain full jurisdiction over the projects….").
[18] *Id.* at 18.

was designed to work.[19] The NCUC also heard from IREC at the recent North Carolina oral argument on the CPRE grouping study.[20] However, as recently highlighted by First Solar and in the Companies' initial Reply Comments, the NCUC effectively determined that no undue discrimination or preferential treatment existed that would warrant deviating from the CPRE grouping study process proposed by the Companies (and supported by the Public Staff and numerous stakeholders) in North Carolina.[21]

a. The Independently-Administered CPRE Program and CPRE grouping study evaluation process is designed to minimize total renewable energy project costs, including the "contingency risk" of grid upgrades, for the benefit of the Companies' customers.

One specific concern that IREC raises relates to the complexity of the CPRE grouping study process due to the number of projects requesting to interconnect to the Companies' systems. IREC's Comments specifically highlight the significant volume of earlier-queued transmission-level solar projects requesting to interconnect within the Companies' South Carolina territories and identifies the potential risks of studying the most competitive CPRE projects identified by the IA (the "Competitive Tier") through CPRE grouping study where these earlier-queued projects may never come to fruition.[22] IREC specifically raises concerns that the CPRE Queue Number and grouping study process will recognize uncommitted or "illusory" Upgrades associated with queued-ahead projects in the study that IREC alleges could cause

[19] *See Reply Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC* at 4-14, NCUC Docket Nos. E-100, Sub 101, E-2, Sub 1159, and E-7, Sub 1156 (filed Sept. 19, 2018) (providing detailed responses to questions raised by IREC in its initial comments filed to the NCUC).

[20] *See*, Transcript of Oral Argument Hearing held on Monday, September 24, 2018, Raleigh, Volume 1, at 122, Docket No. E-100, Sub 101 (Oct. 5, 2018) (where counsel for IREC states that that subject to certain issues being addressed, "IREC supports moving forward with Tranche 1").

[21] *See* Comments of First Solar Inc. filed October 10, 2018, which filed the NCUC's Oct. 5, 2018 *Order Approving Interim Modifications to North Carolina Interconnection Procedures for Tranche 1 of CPRE RFP* ("NCUC Order") with the Commission. Notably, the NCUC specifically recognized and disregarded IREC's comments on certain issues in the NCUC Proceeding, finding that "Although the Commission recognizes the concerns of IREC, all of the other parties in the docket, those of which were heavily involved in the interconnection stakeholder process and the CPRE process, either strongly support the change to Section 4.3.9 or, at the very least, have not expressed opposition to the change." NCUC Order at 11.

[22] IREC Comments at 13.

"massive uncertainty" and negatively impact the CPRE bid selection process.[23] IREC suggests that this approach risks "unexpected, inefficient upgrades costs" if earlier-queued assumed "baseline projects" drop out, and suggests that "South Carolina ratepayers should not have to shoulder the financial cost of this uncertainty."[24]

The Companies agree with IREC that there are risks associated with speculative earlier-queued interconnection requests not coming to fruition; however, as IREC knows from the NCUC proceeding and NCUC Order, the Companies have designed the CPRE grouping study evaluation process to manage and mitigate this risk as effectively as possible. The Companies have worked closely with the IA and the North Carolina Public Staff to develop a "contingency evaluation" within the Step 2 CPRE evaluation process to mitigate the potential that CPRE Competitive Tier projects could be reassigned Upgrades in the future. This contingency evaluation approach will identify any potentially-illusory Upgrades associated with earlier-queued Interconnection Customers that have not yet committed to funding of Upgrades. Importantly, the NCUC specifically recognized the importance of this contingency evaluation and directed the Companies' Evaluation Team "to identify contingent projects for competitive tier bids, and communicate that information, along with cost estimates for their network upgrades, to the IA."[25] Additional mitigation protections were set forth in the NCUC's Order, which directed the IA to "remove any bidding project from the competitive tier that appears cost-effective in the initial full system baseline study, but is then determined to be at risk of incurring significant network upgrades if an earlier queued project were to withdraw."[26] This contingency evaluation process and the protections set forth by the NCUC will be undertaken for both North

[23] *Id.*
[24] *Id.* at 14.
[25] NCUC Order at 8.
[26] *Id.*

Carolina and South Carolina Competitive Tier projects as part of the grouping study evaluation in order to mitigate the risk of Upgrades being reassigned to Competitive Tier projects.

Notably, the risk of speculative, earlier-queued Interconnection Customers dropping out and the associated complexity in the CPRE grouping study process results from the Companies' efforts to *avoid* discriminatory impacts to non-participating Interconnection Customers by preserving their queue position priority—an objective that IREC seems to strongly support.[27] While the Companies share IREC's concern about potentially speculative earlier-queued projects not being developed, the Companies believe this risk has been addressed as comprehensively as possible through the design the CPRE Program evaluation process and additional protections ordered by the NCUC.

b. Duke has committed to take adequate measures to continue to concurrently study CPRE non-participants, and disagrees with IREC that this approach is unreasonable or otherwise disadvantages CPRE non-participating customers.

Another concern IREC raises is the risk to non-participating projects. IREC requests the Commission require the Companies "[to] find a way to ensure that queued-ahead projects receive their study results ahead of or, at a minimum, truly concurrently with, the CPRE group projects."[28] IREC further suggests that "a reasonable and fair process [would be] to complete studies for the existing queued-ahead projects prior to assessing the needed upgrades for the CPRE projects."[29]

As explained in the initial Reply Comments, the Companies plan to continue to study the non-CPRE projects currently with the grouping study of Tranche 1 Competitive Tier projects

[27] *See* Petition at 8-9; *see* IREC Comments at 9-14.
[28] IREC Comments at 19.
[29] *Id*. at 14.

that bid in to the CPRE Program.[30] This approach is reasonable and will not disadvantage Interconnection Customers that elect not to participate in the CPRE RFP. In fact, this concurrent study approach generally aligns with the way "interdependent projects" are studied today under the South Carolina Generator Interconnection Supplemental Memorandum of Understanding ("SCGIP Supplemental MOU").[31] Under the Commission-approved MOU interdependency process, later-queued but "ready" or non-interdependent projects receive study results and progress through the interconnection process concurrently with (and often more quickly than) other earlier-queued projects that are designated interdependent and must await the future interconnection decisions of other earlier-queued Interconnection Customers.[32] The Companies similarly believe that studying the CPRE Competitive Tier projects concurrently with CPRE non-participant projects is fair to all parties. Interconnection Customers bidding into CPRE are also "existing" Interconnection Customers that have moved from their existing queue position to the CPRE Queue Number position in order to participate in the RFP. This means that the CPRE Queue Number may include projects that are further along in the study process than projects that do not elect to bid into CPRE. It is also important to reiterate, as noted above, that the CPRE grouping study has been designed to ensure non-discriminatory treatment by recognizing the priority rights of earlier-queued CPRE non-participants to available transmission capacity on a first-come, first-served basis, ahead of the CPRE Queue Number.

In addition to being inconsistent with current interdependency review process followed under the Commission-approved MOU today, IREC's recommendation that the Companies be required to complete the full study process for all earlier-queued CPRE Non-Participant

[30] Initial Reply Comments at 11.
[31] *Order Adopting Interconnection Standard and Supplemental Provisions* at Order Exhibit 2: Memorandum of Understanding Between Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, South Carolina Office of Regulatory Staff, and South Carolina Solar Business Alliance, Docket No. 2015-362-E (April, 26 2016).
[32] *Id.*

Interconnection Requests—which may or may not ultimately be developed—prior to completing the CPRE grouping study evaluation of Competitive Tier projects would be completely unworkable.[33] Completing serial System Impact Studies and detailed Facilities Studies, and then developing an Interconnection Agreement for all Interconnection Requests that opt not to participate in CPRE would likely take years to complete before evaluating the CPRE Competitive Tier projects, particularly given the more limited number of projects the Companies are permitted to study at this time pursuant to the interdependency process set forth in the SCGIP Supplemental MOU. This approach would only further clog the interconnection queue and delay the Companies' procurement of least cost new renewable energy resources for DEC's and DEP's South Carolina and North Carolina customers. Studying the projects selected in the Competitive Tier concurrently with interconnection requests that choose not to participate in CPRE balances the need to continue to study CPRE non-participants with completing the unique grouping study evaluation under the CPRE Program under the timeframes of the Tranche 1 RFP. Finally, the Companies reiterate their earlier commitment to continue to study all non-interdependent earlier-queued projects that do not bid into CRPE Tranche 1 under the serial SC GIP and MOU process concurrent with completing the CPRE grouping study process.

III. The Companies do not support the burdensome additional reporting requirements recommended by IREC.

The Companies committed in the initial Reply Comments to adhere to the quarterly reporting requirements as recommended by the ORS, which are also consistent with the CPRE reporting requirements recommended by Public Staff and approved by the NCUC in North

[33] Notably, the NCUC did not adopt IREC's identical arguments in North Carolina, which requested the NCUC "require that all interconnection requests that are queued ahead of the CPRE group [to] have their studies completed and [sic] receive an Interconnection Agreement from Duke before the group study is conducted." NCUC Order at 6.

Carolina.[34] Despite the Companies' commitment, IREC's Comments request the Commission impose additional burdensome reporting obligations on the Companies similar in scope to those recommended by SCSBA/Ecoplexus.[35] The Companies disagree with IREC's suggested reporting requirements and submit that the additional CPRE-specific reporting that the Companies have already committed to is reasonable and will promote transparency for Interconnection Customers by clearly identifying the status of projects participating in the CPRE Tranche 1 RFP as well as CPRE non-participants. The Companies also post on their website queue status reports that are updated regularly, and provide information on the interconnection process status of each project in the queue. IREC's request to track and report on every interval step in the interconnection process would be unduly burdensome and would significantly exceed the level of detail required in the reports due to the ORS and the Commission today.

CONCLUSION

WHEREFORE, based on the foregoing and the information presented in the Petition and initial Reply Comments, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC respectfully request that the Commission grant the Companies' Petition and specifically authorize the relief set forth in the Companies' initial Reply Comments.

Respectfully submitted, this 26th day of October, 2018.

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[34] Initial Reply Comments at 7.
[35] IREC Comments at 17-18.

and

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